World Chronicle

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WORLD INVESTMENT REPORT

There are now more than 60,000 transnational corporations, with over 500,000 foreign affiliates that, together, account for over 25 percent of global output. Their combined sales exceed $11 trillion (well ahead of world exports at $7 trillion). Their stocks of assets grew by 20 percent in 1998, to over $4 trillion. The world's top 100 transnational corporations alone command more than $2 trillion of foreign assets. The list is led again by General Electric of the United States. This and other information is contained in 1999's *World Investment Report*, published by the United Nations Conference on Trade and Development. In this **World Chronicle,** Karl Sauvant, from UNCTAD, discusses some of the findings in this year's Report.

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ANNOUNCER: From United Nations Headquarters in New York, this is **World Chronicle**, an unedited interview programme about major global issues.

Here now to introduce our guest is the host of today's **World Chronicle**.

LITTLEJOHNS: I'm Michael Littlejohns, and this is **World Chronicle**.

The *World Investment Report 1999* is the ninth report in an annual series that has been recognized as the most up-to-date and comprehensive source of information regarding foreign direct investment. In its latest edition, the Report examines the most recent global and regional trends in investment. It analyses the momentum for an increasing globalization of economies through foreign direct investment and the activities of transnational corporations. The Report also looks at the relationship between foreign direct investment and economic development.

Our guest today is an expert on foreign direct investment and the role of transnational corporations in the global economy. He is Karl Sauvant, Chief of the International Investment Branch at the United Nations Conference on Trade and Development, UNCTAD. Joining me to talk with Mr. Sauvant are Norberto Svarzman of the *News Agency of Argentina/TELAM* and John Metzler of *USA Radio Network*.

Mr. Sauvant, welcome to **World Chronicle**.

SAUVANT: Thank you very much.

LITTLEJOHNS: Mr. Sauvant, this is quite a hefty tome, the best one in the world. It'll take a little while to read it through but in scanning it and the excellent background press releases that your agency has provided for the media, the thing that struck me is that there doesn't seem to be an awful lot about the involvement of high technology corporations in foreign direct investment - direct foreign investment. For example, I believe that Microsoft has overtaken General Electric Company, which you cite as the largest direct investment company in the world in market capitalization yet, unless I missed it, it does not seem that Microsoft is doing very much in this area. Can you explain this disparity?

SAUVANT: The list of the largest transnational multinational corporations which we are compiling in the Report both worldwide and as well for developing countries and for the first time, for Central Europe, is based on the size of foreign assets. And obviously, a

company like General Electric has a much longer history....

LITTLEJOHNS: And the Ford Motor Company you mentioned also.

SAUVANT: Yes, yes. Has a much longer history in terms of building up foreign assets than a company like Microsoft. That does not mean that Microsoft does not have assets abroad, does not have foreign affiliates but compartively speaking the total amount, the absolute amount , is lower. On the other hand, we paid attention to new technologies but not so much per se, but rather on the effect that new technology has on the operations of the world economy and, in particular, transnational corporations. And we identify the emergence of new technology, in particular information technology and computer technology, as one of the key factors which allows for greater integration of corporate networks and for actually the emergence of integrated international production networks at the company level.

LITTLEJOHNS: Do you want to pursue that a bit? In his speech in the General Assembly the other day, President Clinton referred to the fact that the developing countries are not on the cutting edge in the new technologies but on the edge of survival. What can UNCTAD do to put them on the cutting edge and take them a little bit away from the edge of survival?

SAUVANT: I think it is one of the challenges of globalization that countries have to make extra efforts to be integrated into the international economic system and to benefit from it and in particular we have looked into these phenomena and indeed there is a growing disparity between the developed countries and the developing countries, at least in many areas, and indeed, therefore, an increase of integration which allows developing countries to participate through trade and through investment in the world economy is very important. UNCTAD assists in this process through a variety of mechanisms beginning froman analysis and analytical work which identify also policies that countries can pursue down to very specific technical assistance projects where for instance we advise a country that is interested in it how its investment framework can be modernized in order to be as attractive as possible to foreign investors, but at the same time remain a framework which in the end helps that foreign direct investment contributes to the growth and development of the country.

SVARZMAN: There is a question of politics and investments as usual. The President of the General Assembly, Mr. Gurirab, said that the transnational corporations sometimes are becoming too powerful. As a matter of fact there are 60,000 TNCs and half a million affiliates. Aren't there plans to suggest some way to limit the power or to a code of conduct?

SAUVANT: There was a discussion of a code of conduct in the '70s and in the '80s and the issue of the responsibilities of transnational corporations has remained on the agenda with increasing or decreasing intensity. I think in the present context the situation is more that all countries -- all countries without exception – are very much interested in attracting foreign direct investment and transnational corporations because they conceive of foreign direct investment as a package of tangible and intangible assets – from capital to employment to access to markets to skills to technology -- which they need very much for development. And therefore the question of control as such has become much more a question of how do you channel this type of activities in those areas which you want to promote particularly. But the issue has also come back under a different heading. In fact, since reference was made to the Secretary-General of the United Nations, the Secretary-General of the United Nations has suggested a global compact which would actually address also the responsibilities of business – social responsibility of business – and I think in this context some of these questions may come back.

SVARZMAN: But following up, there's some point you didn't mention ,in particular nature and pollution etc. We have in Latin America some problems with some corporations, specially oil companies, and the destruction of the media.

SAUVANT: Yes. The role of transnational corporations in terms of protecting, or in reference to the environment, is very important and has also received a lot of attention. We're addressing it in the World Investment Report '99 explicitly and I think the systematic evidence would not show that transnational corporations are actually more polluting or more damaging to the environment than average corporations are on the whole. In fact, precisely because transnational corporations are very often in the limelight they, at least some of them, not many of them, make a special effort to make sure that they use environmentally sound

technology and management practices. And there is an additional incentive for that which is what I referred to as the integrated networks that companies are building up worldwide. And obviously it is difficult, or the financial reason if nothing else, to use one set of technology here and another set of technology there. So companies tend – big companies at least – big companies tend to be at the forefront of introducing clean technology and introducing management practices. This is not to say that they couldn't do better. It's not to say that all companies do it but certainly there are some very good examples.

METZLER: Over the past decade we've seen a genuine philosophical sea change in the political parameters of investment. Many of the governments that wanted to shun it years ago or were, alas, wary of it are now encouraging it. What do you see as the cause for this? They need more proverbial jobs or what's the reason?

SAUVANT: I think there are a number of reasons for that. In fact we put it in the Report that we said 20 years ago or 30 years ago transnational corporations were seen as part of the problem now they are being seen as part of the solution. And I think the reasons for that is that one, countries feel a bit more comfortable vis-a-vis these companies. 20 or 30 years ago it was discovered and people had sort of a little bit of a fear about that. But I think more importantly that in an integrated, in a globalizing and a liberalizing world economy where actually resources for development are scarce, every country is competing for the tangible and intangible assets that transnational corporations can provide. So it's not only the jobs it's the technology they can provide, it's access to markets they can provide. For instance, the Malaysian electronic industry was built up to world class levels by multinational corporations. Of course to the benefit of the corporations but also to the benefit of the country involved. So I think it is the need in an integrated world economy to benefit as much as possible from the economic resources that are available.

METZLER: Isn't it often the fact also that many of the transnationals these days are no longer from the US, Japan and the European Union and in fact are from Korea and many of the other countries in the formerly developing world?

SAUVANT: Yes. I'm glad you point that out. The traditional dominance of the United States in this area is no longer there. Indeed, I think overall the United States

accounts for about 25 to 30 percent of investment outflows. The rest comes from Europe and developing countries and Japan. And developing countries now account for about 15 percent of world investment flows which were about 640 billion in 1998. 14 percent compares to two percent at the beginning of the '80s. An additional point is, you made reference about the number of transnational corporations which we estimate at 60,000 or so. Well obviously, in that number the greatest majority are small and medium-sized enterprises and of course they are less of a threat, or perceived to be as less of a threat to developing countries or to other countries. But they indicate the same underlying mechanism, namely that in a liberalizing and globalizing world economy companies of all sizes, from all industries, from all countries, developed and developing, increasingly need to acquire a portfolio of locational assets in order to be competitive internationally.

LITTLEJOHNS: Mr. Sauvant, by their very nature the transnational corporations have been involved in globalization ever since they came to the fore. I mean it's the name of the game for them. Why is UNCTAD this time zeroing in on globalization more so than in the past?

SAUVANT: The effort is really to look not only at individual aspects of the effect of foreign direct investment on development as we have done in the past – we have looked at employment, we have looked at competitiveness, we have looked at trade – but really at the end of the century to try to pull together the overall effect that the emergence of international production has on the world economy and the role that foreign direct investment plays in this respect. I think it is important to see that foreign direct investment has become more important than trade in terms of delivering goods and services to foreign markets. So it has become **the** singlemost important mechanism to link markets internationally, but it also integrates production systems and that creates a totally new phenomenon. And I think this is really what is underlying an effort to deal with this phenomenon in a comprehensive way. In fact, we are saying that this emerging international production system is really the productive core of the globalizing world economy.

LITTLEJOHNS: This is **World Chronicle**. Our guest is Karl Sauvant, Chief of the International Investment Branch at the United Nations Conference on Trade and

Development, UNCTAD.

SVARZMAN: Mr. Sauvant, going back to the moral point of view of investments during his recent visit to the United Nations the Foreign Minister of Argentina, Mr. Di Tella, was asking about corruption in his country, in Latin America. But he pointed out there have been several cases, specially in Argentina, in which some big transnational corporations, which I don't want to name here, have been involved in corruption to get some contracts and investment opportunities. UNCTAD is looking at that question?

SAUVANT: We have looked at the question of corruption of course in the context of the investment process and it certainly is a factor that does not increase the attractivity of any particular transactional country. It is considered by companies, at least, as part of the hassle costs of doing business regardless of who takes the initiative. But it is certainly a problem that is being addressed increasingly in the international arena. There is a convention of the Organization of American States which deals with corruption. At the beginning of 1999 an instrument of the Organization of Economic Cooperation and Development has come into force and there are various United Nations resolutions. It is an issue which is increasingly getting attention.

SVARZMAN: But UNCTAD believes that this is causing a big harm in developing countries?

SAUVANT: Well it is an issue that increasingly needs attention. One would have to see to what extent one can find ways and means to deal with the issue. UNCTAD itself has no particular role to play in this effort, at least at the moment, although we have been asked by the General Assembly to prepare a report on this issue. But it's clear that the question of how to deal with corruption is on the international agenda.

METZLER: Speaking of matters of the law does UNCTAD have a formal directorate whereby countries without a formal investment code can get one through your assistance or at least hone and make these codes better if they do already exist as a way to attract foreign investors?

SAUVANT: Yes. In fact UNCTAD has a service that provides technical assistance to countries that request technical assistance in the area of foreign direct investment. For

instance to help formulate a law, as we did in the case of Namibia, or to help to improve and increase the effectiveness of existing laws both in terms of attracting foreign direct investment and in terms of benefitting from foreign direct investment. And we have actually a quite extensive technical assistance programme in that area.

METZLER: And are these areas dealing primarily with bilateral investments or with multinationals, say within a trade zone – ASEAN or European Union, Mercosur?

SAUVANT: That's a very interesting question because traditionally most of these efforts were actually within a particular country but bilaterally. But increasingly countries are discovering that indeed when they are forming, for instance, a free trade area that they also have to address the question of investment. And indeed, increasingly what are being called free trade agreements are also free investment agreements in the sense that they also cover investment. NAFTA is an example, but for instance the countries in South East Asia have just concluded, meaning at the end of 1998, an investment area agreement whereby they create a larger investment area among themselves, giving particular attention to their own enterprises but also to foreign enterprise. So this is a very interesting development.

LITTLEJOHNS: Mr. Sauvant, the International Labour Organization has dealt to some extent with the problem of child labour in developing countries – child labour mostly employed transnational corporations – and of course Nike has taken a lot of flak because of the low wages that prevail in its factories in foreign countries and compared with the high price that they charge for their footwear. Is UNCTAD doing anything to deal with these questions?

SAUVANT: You're addressing an issue which is a fairly complicated one. Yes, Nike and other companies are paying low wages in developing countries but then wages in developing countries are lower. If you compare the wages paid by foreign affiliates in host countries, and in particular in developing countries, you find that on the average these wages are higher than what is the national average. So if you look at the performance of transnational corporations in their host country settings it is not that bad. And that also applies when it comes to the question of training, development of skills and other aspects of the workplace. I think that is something one should recognize but that is not to condone

child labour, that is something for first of all at the national level to be dealt with and it is increasingly being dealt with at the international level. You made reference to the ILO where indeed there are various conventions that deal with child labour and related issues and the ILO in fact has a lead role in dealing with these issues.

SVARZMAN: But child labour is very much related to development. It's a problem also in Central America. The Presidents of Central America went to Washington asking the Congress and the White House to have more commercial opening, removal of the barriers, but the United States seems to be reluctant to do that. The same thing Europe keeps also high tariffs especially for agriculture products. So UNCTAD, which is trade and development, has a position? You're going to do something?

SAUVANT: Yes. I mean we certainly recognize this. In fact we have made very strong pleas that the negotiation and discussions within the World Trade Organization actually pay much more attention to the problems of the developing countries, in particular in terms of access to markets, and you spoke about tariff peaks in certain areas where actually trade is restricted. Textiles is another area where progress still needs to be made. I think this is very important that the world trading system is indeed to the benefit of all of its members so that those, which Michael you referred to earlier as being marginalized, actually can benefit as much from the world trading system as possible.

SVARZMAN: In a few weeks there is going to be a meeting of the World Trade Organization in Seattle, Washington, do you have any expectation or is it going to be another of those meetings with big statements and nothing concrete?

SAUVANT: It is just the beginning of the preparatory phase so it's very difficult to say. There are certainly a number of voices, in particular from developing countries, which say that the agenda of the World Trade Organization is already so heavy that to add anything more then would make it difficult for them. In fact, a lot of the implementation issues from the Uruguay Round still require attention and certainly there will be a considerable focus on the question of the implementation of the Uruguay Round. But as I mentioned a moment ago we are certainly trying to draw attention to in particular those issues which are of particular importance to developing countries.

METZLER: Returning to the regions for a second the Report cites Central Europe as an area where much investment is coming in – Poland, Czech Republic, Hungary. What about Russia after their financial meltdown? Is it in fact slowly but surely returning or is it something that's going to be in this limbo, if you will, for a few years?

SAUVANT: In 1998 Central and Eastern Europe as a whole received about 18 billion dollars of investment inflows which was about the same as the year before. But it hides precisely that inflows to Russia had declined considerably while those to Central Europe had increased. That, I think, is on the way to recovery but it is a slow recovery. It's, incidentally different from what happened in Asia where actually investment flows in light of the financial crisis in Asia stagnated but they didn't really decline considerably, and where we actually see – well where we saw overall a decline in 1998 but a fairly light decline, and where we certainly would expect that in '99 and 2000 the performance of the region as a whole would improve with, of course, China being the singlemost important host country in that region. In fact, China is now the third largest host country in the world after the United States and the United Kingdom.

LITTLEJOHNS: Mr. Sauvant, having spurned transnational corporations for a long time developing countries now seem to be almost fighting each other in order to get foreign direct investment. Is this a healthy thing?

SAUVANT: It's first of all not only developing countries that are fighting each other or that are competing with each other to attract foreign direct investment but developed countries as well. It is certainly a reflection of competition for scare resources and, you know, being associated with companies which can help to integrate in the world economy and benefit from it. Now this competition is healthy in the sense that it keeps everybody on their toes but of course you also have to watch out that this does not become a competition where you have an incentive race in terms....

LITTLEJOHNS: Where they're giving away the farm as they say.

SAUVANT: That's right. That's correct. In terms of financial incentives, in terms of fiscal incentives and even in terms of regulatory incentives. I think there are some discussion that one should, you know, have clauses whereby indeed countries should not lower their

regulatory standards in order to attract foreign direct investment and I think that's a very healthy consideration.

LITTLEJOHNS: We haven't touched upon Africa although that's a major section of the Report and it seems to me that the foreign direct investment in Africa, although high by some standards, is still pathetically low, eight billion dollars or something which is about what one of these Silicon Valley multimillionaires makes with a couple of IPOs. So it's pretty pathetic really.

SAUVANT: You're right in terms of absolute figures. Singapore gets as much foreign direct investment as Africa together. However....

LITTLEJOHNS: Singapore?

SAUVANT: Singapore. But if you look at the economic size and if you look at the percentage of foreign direct investment as a percentage of total investment, or as a percentage of gross domestic capital from Asia, then Africa is not doing that badly. It's actually in the same average more or less as the developing and developed countries. So we should not be impressed by the fact that the absolute figures are low. But having said that it is quite clear that Africa has quite some opportunities for investments, that many companies do not look at Africa, have written it off. But I think the point which we are trying to make is that indeed that there are investment opportunities in Africa and indeed foreign direct investment in Africa is more profitable than in virtually every other region in the world. So I think if you are a company president who is looking at profits and who is watching where your competitors are going then you definitely should look at Africa.

LITTLEJOHNS: Is that because of very low wages in Africa?

SAUVANT: It's for a number of reasons including that some markets are still protected but it simply shows that the competition perhaps in Africa is not as high as it is elsewhere and therefore companies get better earnings.

LITTLEJOHNS: Mr. Sauvant, that's all the time we have. Thank you for being with us on this edition of **World Chronicle**. Our guest has been Karl Sauvant, Chief of the International Investment Branch at the United Nations Conference and Trade and Development, UNCTAD. He was interviewed by Norberto Svarzman of the *News Agency of*

Argentina and John Metzler of *USA Radio Network*. I'm Michael Littlejohns. Thank you for joining us. We invite you to be with us for the next edition of **World Chronicle.**